

RIVER HEIGHTS CITY
FINANCIAL STATEMENTS

June 30, 2005

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1011 West 400 North, Suite 100
P.O. Box 747
Logan, UT 84323-0747
Phone: (435) 752-1510 • (877) 752-1510
Fax: (435) 752-4878

OFFICERS:

Paul D. Simkins, CPA
Michael C. Kidman, CPA, MBA
Brent S. Sandberg, CPA
Brett C. Hugie, CPA
Mark E. Low, CPA
H. Paul Gibbons, CPA

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of River Heights
River Heights City, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of River Heights, Utah (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison schedule and the notes to the required supplementary information on pages 3 through 8 and on pages 40 and 41, are not a required part of the basic financial statement but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund information and the supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund information, supplemental schedules, and the net revenue bond requirement schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The supplemental water, sewer and insurance information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



JONES SIMKINS, P.C.
February 8, 2006

RIVER HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

This document is a narrative overview and analysis of the financial activities of River Heights City for the fiscal year ending June 30, 2005. River Heights City's management encourages readers to consider the information presented here in conjunction with the financial statements which follow this section. To help the reader with navigation of this report, the City's activities are classified in the following manner: government activities refers to general administration, parks and recreation, highways and public improvements, planning, public safety, etc., while business-type activities refers to operations of the water and sewer utilities.

FINANCIAL HIGHLIGHTS

- The total net asset of River Heights City increased by \$187,964 totaling \$1,722,340. The government net assets increased by \$111,239 and the business-type net assets decreased by \$76,725.
- The total net assets of government and business-type activities is \$1,722,340 and is made up of \$1,098,038 in capital assets, such as land, infrastructure and equipment, and \$624,302 in other net assets. The \$624,302 in other net assets consists of \$102,084 restricted for revenue bond reserves and \$37,693 restricted for sewer impact fees. The remaining \$484,525 is unrestricted net assets.
- Total long-term liabilities of the City decreased by \$74,496.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to River Heights City's basic financial statements. River Heights City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of River Heights City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of River Heights City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of River Heights City is improving or deteriorating. However, there will also be a need to consider other non-financial factors.

RIVER HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions of River Heights City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 11 and 12 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. River Heights City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental fund(as determined by generally accepted accounting principles) are the General Fund and the Capital Projects Fund.

- **Proprietary funds** - River Heights City maintains one type of proprietary fund, the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

RIVER HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

River Heights City uses enterprise funds to account for its culinary water and sewer utility operations. As determined by generally accepted accounting principles, the Water Fund and the Sewer Fund (enterprise funds) meet the criteria for major fund classification.

- **Fiduciary funds** - These funds are used to account for resources held for the benefit of parties outside the government. The City currently has no fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of River Heights City, assets exceed liabilities by \$1,722,340.

By far the largest portion of River Heights City's net assets (64%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment, net of depreciation). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS

		<u>Governmental Activities</u>		<u>Business-type Activities</u>	
		<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	\$	380,884	459,950	425,809	324,421
Capital assets		<u>437,262</u>	<u>455,027</u>	<u>1,336,107</u>	<u>1,490,515</u>
Total assets		<u>818,146</u>	<u>914,977</u>	<u>1,761,916</u>	<u>1,814,936</u>
Current liabilities		76,714	111,802	46,972	48,267
Non current liabilities		<u>107,000</u>	<u>57,504</u>	<u>815,000</u>	<u>790,000</u>
Total liabilities		<u>183,714</u>	<u>169,306</u>	<u>861,972</u>	<u>838,267</u>
Invested in capital assets, net of debt		330,262	397,523	521,107	700,515
Restricted		-	-	161,748	139,777
Unrestricted		<u>304,170</u>	<u>348,148</u>	<u>217,089</u>	<u>136,377</u>
Total net assets	\$	<u>634,432</u>	<u>745,671</u>	<u>899,944</u>	<u>976,669</u>

RIVER HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenues				
Program revenues				
Charges for services	\$ 136,591	148,173	317,922	345,053
Operating grants	54,487	50,185	-	-
Capital grants	10,181	-	-	-
General revenues				
Property taxes	53,896	77,168	-	-
Sales and use taxes	102,831	108,835	-	-
Franchise taxes	32,050	59,615	-	-
Other revenues	<u>3,231</u>	<u>3,257</u>	<u>7,347</u>	<u>9,269</u>
Total revenues	<u>393,718</u>	<u>447,233</u>	<u>325,269</u>	<u>354,322</u>
Expenses				
General government	97,904	108,085	-	-
Public safety	46,618	60,457	-	-
Streets and public improvements	123,055	79,028	-	-
Parks and recreation	44,671	48,679	-	-
Sanitation	79,169	82,541	-	-
Interest on long-term debt	5,515	4,204	-	-
Water	-	-	155,055	117,879
Sewer	<u>-</u>	<u>-</u>	<u>82,061</u>	<u>75,540</u>
Total expenses	<u>396,932</u>	<u>382,994</u>	<u>237,116</u>	<u>230,597</u>
Excess (deficiency) before transfers	(3,214)	64,239	88,153	123,725
Transfers	<u>47,000</u>	<u>47,000</u>	<u>(47,000)</u>	<u>(47,000)</u>
Change in net assets	43,786	111,239	41,153	76,725
Net assets - beginning	<u>590,646</u>	<u>634,432</u>	<u>858,791</u>	<u>899,944</u>
Net assets - ending	\$ <u>634,432</u>	<u>745,671</u>	<u>899,944</u>	<u>976,669</u>

RIVER HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. As of June 30, 2005, the City's governmental funds (General and Capital Projects) reported combined fund equity of \$348,148. The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represented 51% of the total general fund revenues. The two largest elements of taxes are sales and use taxes and property taxes, as it has been for the last several years. Sales and use tax represents 44% of total tax revenues and 24% of total general fund revenues. Property tax including fees-in-lieu represents 31% of total tax revenues and 17% of the total general fund revenues.

The City maintains enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the current fiscal year the General Fund budget for expenditures was \$499,702, compared to actual expenditures of \$483,800 while budgeted revenues were \$385,240 compared to actual revenues of \$485,664. This resulted in a favorable variance for excess of revenues over expenditures of \$116,326.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - River Heights City's investment in capital assets for its governmental and business-type activities as of June 30 2005, amounts to \$1,945,542 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and machinery and equipment. The increase in the City's investment in fixed assets for the current year was \$237,543 and depreciation expense was \$65,370.

Major capital asset events during the current fiscal year included the following:

The large majority of the City's capital assets additions this year was for the reconstruction and improvement of the city well.

RIVER HEIGHTS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt - As of June 30, 2005 the City had total debt outstanding of \$847,504. The majority of River Heights City's long-term debt, \$790,000 is revenue bonds used to build the water storage reservoir. Also \$57,504 of general obligation debt was used to purchase land next to the City sheds.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this financial report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of River Heights City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the River Heights City Recorder, 520 South 500 East, River Heights City, Utah, 84321.

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Basic Financial Statements

CITY OF RIVER HEIGHTS
STATEMENT OF NET ASSETS

June 30, 2005

<u>Assets</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Pooled cash and cash equivalents	\$ 329,883	275,837	605,720
Receivables	130,067	48,584	178,651
Fixed assets, net	455,027	1,490,515	1,945,542
Total assets	914,977	1,814,936	2,729,913
<u>Liabilities</u>			
Liabilities:			
Accounts payable and accrued expenses:	38,321	9,720	48,041
Deposits due customers	-	4,161	4,161
Accrued interest	-	34,386	34,386
Deferred revenue	73,481		73,481
Noncurrent liabilities:			
Due within one year	57,504	27,000	84,504
Due in more than one year	-	763,000	763,000
Total liabilities	169,306	838,267	1,007,573
<u>Net Assets</u>			
Investments in capital assets, net of related debt	397,523	700,515	1,098,038
Restricted	-	139,777	139,777
Unrestricted	348,148	136,377	484,525
Total net assets	\$ 745,671	976,669	1,722,340

The accompanying notes are an integral
part of these financial statements.

CITY OF RIVER HEIGHTS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 108,085	17,810	-	-	(90,275)	-	(90,275)
Public safety	60,457	12,637	496	-	(47,324)	-	(47,324)
Streets and public improvements	79,028	3,850	48,011	-	(27,167)	-	(27,167)
Parks and recreation	48,679	19,397	1,678	-	(27,604)	-	(27,604)
Sanitation	82,541	94,479	-	-	11,938	-	11,938
Interest on long-term debt	4,204	-	-	-	(4,204)	-	(4,204)
Total governmental activities	382,994	148,173	50,185	-	(184,636)	-	(184,636)
Business-type activities:							
Water fund	155,057	243,052	-	-	-	87,995	87,995
Sewer fund	75,540	102,001	-	-	-	26,461	26,461
Total business-type activities	230,597	345,053	-	-	-	114,456	114,456
Total primary government	\$ 613,591	493,226	50,185	-	(184,636)	114,456	(70,180)
General revenues:							
Taxes:							
Sales and use tax					108,835	-	108,835
Property tax					77,168	-	77,168
Franchise taxes other taxes					59,615	-	59,615
Total taxes					245,618	-	245,618
Miscellaneous							-
Interest income					3,257	9,269	12,526
Transfers					47,000	(47,000)	-
Total general revenues and transfers					295,875	(37,731)	258,144
Change in net assets					111,239	76,725	187,964
Net assets—beginning					634,432	899,944	1,534,376
Net assets—ending					\$ 745,671	976,669	1,722,340

The accompanying notes are an integral part
of these financial statements.

CITY OF RIVER HEIGHTS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

<u>Assets</u>	<u>General</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Pooled cash and cash equivalents	\$ 70,406	259,477	329,883
Taxes receivable	93,199	-	93,199
Accounts receivable	26,881	-	26,881
Due from other governmental units	9,987	-	9,987
Total assets	<u>\$ 200,473</u>	<u>259,477</u>	<u>459,950</u>
<u>Liabilities and Fund Equities</u>			
Liabilities:			
Accounts payable	\$ 30,178	8,143	38,321
Deferred revenue	73,481	-	73,481
Total liabilities	<u>103,659</u>	<u>8,143</u>	<u>111,802</u>
Fund equity:			
Fund balances			
Unreserved - undesignated	96,814	251,334	348,148
Total fund equity	<u>96,814</u>	<u>251,334</u>	<u>348,148</u>
Total liabilities and fund equity	<u>\$ 200,473</u>	<u>259,477</u>	<u>459,950</u>

The accompanying notes are an integral
part of these financial statements.

CITY OF RIVER HEIGHTS
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2005

Total fund balances for governmental funds \$ 348,148

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not
financial resources and are not financial resources
and therefore are not reported in the funds.

Land	\$ 255,719	
Buildings and improvements	287,392	
Machinery and equipment	101,184	
Infrastructure	18,626	
Accumulated depreciation	<u>(207,894)</u>	455,027

Long-term liabilities and related accrued interest are
not due and payable in the current period and therefore
are not reported in the funds.

(57,504)

Net assets of governmental activities \$ 745,671

The accompanying notes are an integral part
of these financial statements.

CITY OF RIVER HEIGHTS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 245,618	-	245,618
Licenses and permits	12,690	-	12,690
Intergovernmental	50,185	-	50,185
Charges for services	171,059	-	171,059
Fines and forfeitures	5,120	-	5,120
Miscellaneous revenues	992	3,257	4,249
Total revenues	<u>485,664</u>	<u>3,257</u>	<u>488,921</u>
Expenditures:			
General government	144,855	8,143	152,998
Public safety	60,457	-	60,457
Streets and public improvements	101,746	-	101,746
Sanitation	82,541	-	82,541
Parks and recreation	94,201	-	94,201
Total expenditures	<u>483,800</u>	<u>8,143</u>	<u>491,943</u>
Excess (deficiency) of revenues over expenditures	<u>1,864</u>	<u>(4,886)</u>	<u>(3,022)</u>
Other financing sources (uses):			
Transfers in (out):			
Sewer Fund	47,000	-	47,000
Total other financing sources (uses)	<u>47,000</u>	<u>-</u>	<u>47,000</u>
Change in fund balance	48,864	(4,886)	43,978
Fund balance - beginning of year	<u>47,950</u>	<u>256,220</u>	<u>304,170</u>
Fund balance - end of year	<u>\$ 96,814</u>	<u>251,334</u>	<u>348,148</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF RIVER HEIGHTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Net change in fund balance - Total governmental funds	\$ 43,978
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$18,999 is less than capital outlay of \$36,764 in the current year.

	17,765
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Long-term debt proceeds provides current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal are expenditures in the governmental funds:

Payment of long-term debt principal	<u>49,496</u>
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Change in net assets of governmental activities	\$ <u><u>111,239</u></u>
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The accompanying notes are an integral part
of these financial statements.

CITY OF RIVER HEIGHTS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005

<u>Assets</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Business- Type Activities</u>
Pooled cash and cash equivalents	\$ -	275,837	275,837
Due from pooled cash	-	130,618	130,618
Accounts receivable	32,314	16,270	48,584
Fixed assets, net	<u>1,388,065</u>	<u>102,450</u>	<u>1,490,515</u>
Total assets	<u>1,420,379</u>	<u>525,175</u>	<u>1,945,554</u>
<u>Liabilities</u>			
Liabilities:			
Due to pooled cash	130,618	-	130,618
Accounts payable	8,767	953	9,720
Accrued interest	34,386	-	34,386
Deposits due customers	4,161	-	4,161
Noncurrent liabilities:			
Due within one year	27,000	-	27,000
Due in more than one year	<u>763,000</u>	<u>-</u>	<u>763,000</u>
Total liabilities	<u>967,932</u>	<u>953</u>	<u>968,885</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	598,065	102,450	700,515
Restricted:			
Impact fees	-	37,693	37,693
Bond requirements	102,084	-	102,084
Unrestricted	<u>(247,702)</u>	<u>384,079</u>	<u>136,377</u>
Total net assets	<u>\$ 452,447</u>	<u>524,222</u>	<u>976,669</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF RIVER HEIGHTS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For The Year Ended June 30, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Business- Type Activities</u>
Operating revenues:			
Services	\$ 201,457	83,416	284,873
Connection fees	13,475	3,650	17,125
Total operating revenues	<u>214,932</u>	<u>87,066</u>	<u>301,998</u>
Operating expenses:			
Salaries and benefits	21,734	15,957	37,691
Administrative fee	20,844	20,844	41,688
Materials and supplies	-	26	26
Current expenses	27,697	35,816	63,513
Depreciation	43,474	2,897	46,371
Total operating expenses	<u>113,749</u>	<u>75,540</u>	<u>189,289</u>
Operating income	101,183	11,526	112,709
Non-operating income (expense):			
Impact fees	28,120	14,935	43,055
Interest income	4,384	4,885	9,269
Transfer out	-	(47,000)	(47,000)
Interest expense	(41,308)	-	(41,308)
Total non-operating income (expense)	<u>(8,804)</u>	<u>(27,180)</u>	<u>(35,984)</u>
Change in net assets	92,379	(15,654)	76,725
Net assets - beginning of year	<u>360,068</u>	<u>539,876</u>	<u>899,944</u>
Net assets - end of year	<u>\$ 452,447</u>	<u>524,222</u>	<u>976,669</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF RIVER HEIGHTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2005

	Water Fund	Sewer Fund	Total Business- Type Activities
<u>Cash flows from operating activities:</u>			
Receipts from customers and users	\$ 211,261	84,766	296,027
Payments to suppliers	(27,700)	(35,102)	(62,802)
Payments to employees	(21,734)	(15,957)	(37,691)
Payments for interfund services used	(20,844)	(20,844)	(41,688)
Net cash provided by operating activities	<u>140,983</u>	<u>12,863</u>	<u>153,846</u>
<u>Cash flows from non-capital financing activities</u>			
Impact fees	28,120	14,935	43,055
Change in due to pooled cash	43,842	(43,842)	-
Transfer to general fund	-	(47,000)	(47,000)
Net cash provided by (used in) non-capital financing activities	<u>71,962</u>	<u>(75,907)</u>	<u>(3,945)</u>
<u>Cash flows from capital and related financing activities:</u>			
Acquisition and construction of capital assets	(200,779)	-	(200,779)
Principal payments on bonds	(25,000)	-	(25,000)
Interest payments on bonds	(40,750)	-	(40,750)
Net cash used in capital and related financing activities	<u>(266,529)</u>	<u>-</u>	<u>(266,529)</u>
<u>Cash flows from investing activities:</u>			
Interest on investments	4,384	4,885	9,269
Net cash provided by investing activities	<u>4,384</u>	<u>4,885</u>	<u>9,269</u>
Net decrease in cash and cash equivalents	(49,200)	(58,159)	(107,359)
Cash and cash equivalents at beginning of year	49,200	333,996	383,196
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>275,837</u>	<u>275,837</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 101,183	11,526	112,709
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	43,474	2,897	46,371
Change in assets and liabilities:			
Increase in accounts receivable	(3,671)	(2,300)	(5,971)
Increase in accounts payable	(3)	740	737
Total adjustments	<u>39,800</u>	<u>1,337</u>	<u>41,137</u>
Net cash provided by operating activities	<u>\$ 140,983</u>	<u>12,863</u>	<u>153,846</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The City of River Heights, Utah (the City), operates as an incorporated governmental entity within the State of Utah. The City operates under the Council-Mayor form of government and provides the following services: public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning, and general administrative services. In addition, the City owns and operates a water and sewer system.

The financial statements of the City of River Heights (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The accounting policies of the City conform to generally accepted accounting principles.

The City has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by, or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The City participates in the Cache Valley Transit District (CVTD) and the Cache Metropolitan Planning Organization (CMPO), which are separate legal entities which are not controlled or dependent upon the City. However, the City has imposed a ¼ of 1% sales tax to fund the CVTD. The Utah State Auditor's Office has determined that the sales tax is in effect collected by the CVTD and that the related revenue and expenditures should be excluded from these financial statements.

Basic Financial Statements - Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's public safety (police and fire), highway and streets, sanitation, recreation, public improvements, planning and zoning, and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts, - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

Governmental activities are usually financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general, public safety, etc.). The functions are also supported by general government revenues (property, sales and use taxes, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property or sales taxes, interest income, etc.).

The City does not allocate indirect costs. However, the City does charge an administrative fee to the Water Fund and the Sewer Fund. The fee is eliminated in the Statement of Activities.

These government-wide statements focus more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Statements

The City's accounting system is organized on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the government establishes for accountability purposes in accordance with statutes, laws, regulations, restrictions, or specific purposes.

Separate financial statements are provided for governmental funds and proprietary funds. For governmental funds, the emphasis is on major individual governmental funds with each displayed as a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

The following fund types are used by the City.

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City.

- The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition of capital facilities and equipment by the City.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as non-operating.

- **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The **Water Fund** and the **Sewer Fund** operate as enterprise funds and account for the water and sewer operations of the City.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service and compensated absences expenditures are recorded only when payment is due.

Financial Statement Amounts

Cash and cash equivalents

For the purpose of the Statement of Net Assets, the term "cash and cash equivalents" includes all demand deposit accounts, savings accounts, or other short-term, highly liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Interfund Receivables and Payables

During the course of operations, transactions sometimes occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Accounts Receivable

Receivables consist of all revenues earned at year-end but received after year-end. Allowances for uncollectible accounts are based upon historical trends. Receivable balances for the governmental activities include sales taxes, property taxes, garbage collection fees, and 911 fees. Business-type activities report receivables for utility service fees.

Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all depreciable assets has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and improvements	20 to 40 years
Water and sewer improvements	10 to 40 years
Machinery and equipment	5 to 10 years

GASB Statement No. 34 requires the City to report infrastructure assets effective with the beginning of the current year with the option of reporting its pre-existing infrastructure assets retroactively. Infrastructure assets includes roads, bridges, underground pipe (other than that related to utilities), etc. The City has elected not to report its infrastructure assets retroactively.

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

Deferred Revenues

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government wide financial statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets - Consists of net assets with constraints placed on their use whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Revenues

Property taxes, franchise taxes, licenses, fees-in-lieu, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes and fees-in-lieu associated with future periods are deferred. All other revenue items are considered to be measurable and available only when the City receives cash. Grants are usually reimbursable grants and are thus recognized as revenue at the time the expenditures are made.

Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In addition, other revenues that do not result from providing services are reported as non-operating revenues.

Expenses/Expenditures

When an expense/expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the City's general policy to use restricted resources first.

For proprietary fund financial statements, operating expenses are those that result from providing services to customers.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Property Tax Calendar

Cache County assesses all taxable property other than centrally assessed property, which is assessed through the State, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2 – Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted by the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

At June 30, 2005, the City's deposits and investments consisted of the following:

<u>Financial Statement Description</u>	<u>Deposits</u>	<u>Investments</u>	<u>Cash</u>	<u>Total</u>
Pooled cash and cash equivalents:				
Demand deposits	\$ 37,869	-	-	37,869
Public Treasurer's Investment Pool	-	567,851	-	567,851
Total pooled cash and cash equivalents	\$ 37,869	567,851	-	605,720
Total all deposits and investments	\$ 37,869	567,851	-	605,720

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2005, the City's entire bank balance of \$49,789 was insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investments transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with the issuers of investment securities.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2 – Deposits and Investments (continued)

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investor Services or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurers’ Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionately in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005, all investments held by the City are in the PTIF, which has a maturity of less than 1 year.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State’s Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all City investments in commercial paper, bankers’ acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2 – Deposits and Investments (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act as previously discussed. At June 30, 2005, all investments held by the City are in the PTIF which is unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial risk is to use the PTIF whenever possible. As of June 30, 2005, all of the City's investments were in the PTIF.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 - Receivables and Due From Other Governments

The City has taxes, accounts receivable, and due from other governments as of June 30, 2005, as follows:

General Fund:

Taxes:

Property tax \$ 73,481

Sales tax 19,718

Total \$ 93,199

Accounts:

Garbage \$ 18,963

911 fees 2,628

Miscellaneous 5,290

Total \$ 26,881

Due from other government units:

Class "C" Roads – State of Utah \$ 9,987

Water Fund:

Accounts:

Services and fees \$ 32,314

Sewer Fund:

Accounts:

Services and fees \$ 16,270

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4 - Capital Assets

Capital asset changes occurring for the year ended June 30, 2005, are as follows:

	July 1, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	June 30, <u>2005</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ <u>255,719</u>	<u>-</u>	<u>-</u>	<u>255,719</u>
Total capital assets not being depreciated	<u>255,719</u>	<u>-</u>	<u>-</u>	<u>255,719</u>
Capital assets being depreciated:				
Buildings	277,754	9,638	-	287,392
Machinery and equipment	92,684	8,500	-	101,184
Infrastructure	<u>-</u>	<u>18,626</u>	<u>-</u>	<u>18,626</u>
Total capital assets being depreciated	<u>370,438</u>	<u>36,764</u>	<u>-</u>	<u>407,202</u>
Accumulated depreciation for:				
Buildings	(130,126)	(10,343)	-	(140,469)
Machinery and equipment	(58,769)	(8,046)	-	(66,815)
Infrastructure	<u>-</u>	<u>(610)</u>	<u>-</u>	<u>(610)</u>
Total accumulated depreciation	<u>(188,895)</u>	<u>(18,999)</u>	<u>-</u>	<u>(207,894)</u>
Total capital assets being depreciated, net	<u>181,543</u>	<u>17,765</u>	<u>-</u>	<u>199,308</u>
Total governmental activities capital assets, net	\$ <u>437,262</u>	<u>17,765</u>	<u>-</u>	<u>455,027</u>

Depreciation expense was charged to functions of the City as follows:

General government	\$ 4,918
Streets and public improvements	5,902
Parks and recreation	<u>8,179</u>
Total depreciation expense	\$ <u>18,999</u>

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4 - Capital Assets (continued)

	July 1, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	June 30, <u>2005</u>
<u>Business-type activities:</u>				
Capital assets being depreciated:				
Water system	\$ 1,576,671	200,779	-	1,777,450
Sewer system	<u>515,830</u>	<u>-</u>	<u>-</u>	<u>515,830</u>
 Total capital assets being depreciated	 <u>2,092,501</u>	 <u>200,779</u>	 <u>-</u>	 <u>2,293,280</u>
 Accumulated depreciation for:				
Water system	(345,911)	(43,474)	-	(389,385)
Sewer system	<u>(410,483)</u>	<u>(2,897)</u>	<u>-</u>	<u>(413,380)</u>
 Total accumulated depreciation	 <u>(756,394)</u>	 <u>(46,371)</u>	 <u>-</u>	 <u>(802,765)</u>
 Total business-type activities capital assets, net	 \$ <u>1,336,107</u>	 <u>154,408</u>	 <u>-</u>	 <u>1,490,515</u>

Note 5 - Refundable Water Deposits

The Water Fund requires deposits for all new water connections. The deposit is refunded upon termination of service if no balance is owed on the customer account or after two years of current payments, whichever comes first. If an outstanding balance exists at termination, the deposit is first applied to the outstanding balance with any excess refunded. A total of the detailed list of deposits is carried as a current liability on the City records.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6 - Interfund Balances/Transfers

Interfund balances as of June 30, 2005 consisted of the following:

Due To/From Pooled Cash and Cash Equivalents:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer	Water	\$130,618

During the year, the City made the following interfund transfer:

<u>Purpose</u>	<u>Amount</u>	<u>Transfer in</u>	<u>Transfer out</u>
Operations	\$ 47,000	General	Sewer

Administrative fees are paid by the enterprise funds and are reported as "charges for services" revenue in the general fund. These fees represent an allocation of costs to the enterprise funds for personnel and other services paid by the general fund. During the year an administrative fee was charged as follows:

Water	\$ 20,844
Sewer	<u>20,844</u>
Total	\$ <u>41,688</u>

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 7 - Long-Term Debt

Long-term liability activity for fiscal year ending June 30, 2005, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Notes payable	\$ <u>107,000</u>	<u>-</u>	<u>(49,496)</u>	<u>57,504</u>	<u>57,504</u>
Governmental activity long-term liabilities	\$ <u>107,000</u>	<u>-</u>	<u>(49,496)</u>	<u>57,504</u>	<u>57,504</u>

Governmental activities long-term debt was comprised of the following:

Notes payable:

\$62,794 note payable to Zions First National Bank, payable in monthly installments of \$558 including interest at 6.73%, final balloon payment due April 15, 2006, secured by land 57,504

Total general long-term debt \$ 57,504

The annual requirement to amortize the governmental activities debt outstanding as of June 30, 2005, was:

<u>Years ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ <u>57,504</u>	<u>3,176</u>
Total	\$ <u>57,504</u>	<u>3,176</u>

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 7 - Long-Term Debt (continued)

Business Type Activities

The following is a summary of long-term debt transactions of the City's proprietary fund for the year ended June 30, 2005:

Bonds payable at July 1, 2004	\$ 815,000
Payment of principal	<u>(25,000)</u>
Bonds payable at June 30, 2005	\$ <u>790,000</u>

Bonds payable are solely in the Water Fund at June 30, 2005 and are comprised of the following individual issue:

\$839,000 Water Revenue Bonds, Series 2001, issued September 1, 2001. Due in annual installments ranging from \$24,000 to \$69,000 until September 1, 2019, plus interest at 5%.	\$ <u>790,000</u>
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The annual requirements to amortize all proprietary long-term debt outstanding as of June 30, 2005 were as follows:

Years ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 27,000	39,500
2007	29,000	38,150
2008	31,000	36,700
2009	32,000	35,150
2010	46,000	33,550
2011-2015	275,000	130,250
2016-2020	<u>350,000</u>	<u>53,300</u>
Total	\$ <u>790,000</u>	<u>366,600</u>

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 - Restricted Net Assets/Reserved Fund Equity

Restricted net assets and reserved fund balances represent moneys required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved equity balances at June 30, 2005:

Water Fund:

Revenue bond reserves	\$ <u>102,084</u>
Total restricted net assets	\$ <u>102,084</u>

The Water Revenue Bond covenants require a reserve fund to be established whereby a monthly amount equal to 1/12 of the amount of the principal and interest falling due on the next succeeding payment date to the end that there will be sufficient moneys allocated to pay the principal and interest when due. An additional amount is to be made in years 2004 to 2009 with payment requirements of \$975 per month until the total reserve is \$70,000.

In accordance with the terms of the Water Revenue Bond, the City has reserved a portion of retained earnings to satisfy all reserves required by the bonds' covenants.

Sewer Fund:

Impact fees	\$ <u>37,693</u>
Total restricted net assets	\$ <u>37,693</u>

The City assesses impact fees for parks, roads, and water and sewer improvements as allowed by State law. Impact fees represent fees assessed by the City for future capital improvements. These fees are not intended to recover impact costs for growth in areas not assessed by the City. The City reports the excess of impact fees collected over uses for identified projects as restricted net assets and reserved fund balance.

Note 9 - Deferred Compensation Plan

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits all eligible employees to defer a portion of their salary until future years. The City's involvement is limited to withholding the amounts elected by employees and remitting those amounts to the investment company.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City participates in the Utah Local Government Insurance Trust, a public entity risk pool to manage its risk of loss. The City pays an annual premium to the trust for its general insurance coverage. The Trust was created to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of two million dollars for each insured event. There have been no claim settlements which exceeded the City's insurance coverage for the past three years.

Note 11 – Subsequent Event

Subsequent to June 30, 2005, the City sold a house for approximately \$50,000 but retained the property. In a prior year, the City had purchased the property, and the house, by borrowing money on a note payable. The City paid the balance of the note payable (approximately \$57,000) subsequent to year end.

Required Supplementary Information

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CITY OF RIVER HEIGHTS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For The Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 200,600	200,600	245,618	45,018
Licenses and permits	9,800	9,800	12,690	2,890
Intergovernmental	58,050	58,050	50,185	(7,865)
Charges for services	112,790	112,790	171,059	58,269
Fines and forfeitures	4,000	4,000	5,120	1,120
Miscellaneous revenues	-	-	992	992
Total revenues	<u>385,240</u>	<u>385,240</u>	<u>485,664</u>	<u>100,424</u>
Expenditures:				
General government	102,575	102,575	144,855	(42,280)
Public safety	53,500	53,500	60,457	(6,957)
Streets and public improvements	185,300	185,300	101,746	83,554
Sanitation	75,000	75,000	82,541	(7,541)
Parks and recreation	83,327	83,327	94,201	(10,874)
Total expenditures	<u>499,702</u>	<u>499,702</u>	<u>483,800</u>	<u>15,902</u>
Excess (deficiency) of revenues over expenditures	<u>(114,462)</u>	<u>(114,462)</u>	<u>1,864</u>	<u>116,326</u>
Other financing sources (uses):				
Transfers in (out):				
Sewer Fund	47,000	47,000	47,000	-
Capital Projects Fund	67,462	67,462	-	(67,462)
Total other financing sources (uses)	<u>114,462</u>	<u>114,462</u>	<u>47,000</u>	<u>(67,462)</u>
Change in fund balance	<u>\$ -</u>	<u>-</u>	<u>48,864</u>	<u>48,864</u>
Fund balance - beginning of year			<u>47,950</u>	
Fund balance - end of year	\$		<u>96,814</u>	

RIVER HEIGHTS CITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
June 30, 2005

Budget Presentation

A Budgetary Comparison Schedule is presented for the General Fund and each major special revenue fund as required by generally accepted accounting principles (GAAP). Budgets for governmental funds are adopted on a GAAP basis.

Annual appropriated budgets are adopted for all governmental and business-type funds. All annual appropriations lapse at fiscal year end. Each fund adopts a "balanced budget" in accordance with State law. As allowed by State law, the City Council may authorize increases to or uses of unreserved fund balances. In the budget presentations, authorized increases to fund balance are shown as positive changes in fund balance and authorized decreases are shown as negative changes in fund balance.

Budget Adoption and Monitoring

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officers so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review at the first scheduled meeting in May. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The City financial officer must, within the revenues and reserves, estimate any changes in the budget as available or revenue estimates may be changed by an affirmative vote of a majority of the City Council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22, and adoption of budgets is done similarly.

State statute requires that City officers shall not incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Only the Council at a properly advertised public hearing can make increases in total fund appropriations. The final budget information presented is after all approved amendments.

Supplementary Information

CITY OF RIVER HEIGHTS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Taxes:			
General property taxes	\$ 65,600	68,623	3,023
Fee in lieu of property taxes	8,000	8,545	545
Sales and use taxes	95,000	108,835	13,835
Redemption taxes	-	1,720	1,720
Franchise taxes	32,000	57,895	25,895
Total taxes	200,600	245,618	45,018
Licenses and permits:			
Building permits	7,300	10,098	2,798
Animal licenses	2,500	2,592	92
Total licenses and permits	9,800	12,690	2,890
Intergovernmental:			
Class "C" roads	57,550	42,721	(14,829)
Museum grant	-	1,678	1,678
Roads, sidewalk, curb	-	5,290	5,290
Liquor law enforcement	500	496	(4)
Total intergovernmental	58,050	50,185	(7,865)
Charges for services:			
Sanitation	77,000	88,687	11,687
Storm drainage	-	5,792	5,792
Impact fees	-	12,540	12,540
Recreation	16,190	5,196	(10,994)
911 fees	13,000	12,637	(363)
Rent	6,600	4,519	(2,081)
Administrative fees	-	41,688	41,688
Total charges for services	112,790	171,059	58,269
Fines and forfeitures	4,000	5,120	1,120

(continued)

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CITY OF RIVER HEIGHTS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	Favorable (Unfavorable)
Miscellaneous revenues:			
Miscellaneous	-	992	992
Total miscellaneous	-	992	992
Total revenues	385,240	485,664	100,424
Expenditures:			
General government:			
Personnel	51,353	88,438	(37,085)
Planning and zoning	13,700	7,038	6,662
Non-departmental	37,522	49,379	(11,857)
Total general government	102,575	144,855	(42,280)
Public safety:			
Fire protection	16,000	16,470	(470)
Law enforcement	9,500	16,896	(7,396)
Animal control	8,500	8,759	(259)
Crossing guards	6,200	5,736	464
911 dispatch	13,300	12,596	704
Total public safety	53,500	60,457	(6,957)
Streets and public improvements:			
Class C roads	185,300	101,746	83,554
Total streets and improvements	185,300	101,746	83,554
Sanitation	75,000	82,541	(7,541)

(continued)

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CITY OF RIVER HEIGHTS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	Favorable (Unfavorable)
Parks and recreation:			
Parks	20,177	28,291	(8,114)
Recreation and culture	4,250	-	4,250
Community development	9,900	8,270	1,630
Cemeteries	49,000	57,640	(8,640)
Total parks and recreation	83,327	94,201	(10,874)
Total expenditures	499,702	483,800	15,902
Excess (deficiency) of revenues over expenditures	(114,462)	1,864	116,326
Other financing sources:			
Transfer in from Capital Projects Fund	67,462	-	(67,462)
Transfer in from Sewer Fund	47,000	47,000	-
Total other financing sources	114,462	47,000	(67,462)
Change in fund balance	\$ -	48,864	48,864
Fund balance - beginning of year		47,950	
Fund balance - end of year	\$	96,814	

CITY OF RIVER HEIGHTS
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Miscellaneous revenues	\$ 4,300	3,257	(1,043)
Total revenues	<u>4,300</u>	<u>3,257</u>	<u>(1,043)</u>
Expenditures	<u>-</u>	<u>8,143</u>	<u>(8,143)</u>
Total expenditures	<u>-</u>	<u>8,143</u>	<u>(8,143)</u>
Excess of revenues over expenditures	<u>4,300</u>	<u>(4,886)</u>	<u>(9,186)</u>
Other financing uses:			
Transfers out	<u>(67,462)</u>	<u>-</u>	<u>67,462</u>
Total other financing uses	<u>(67,462)</u>	<u>-</u>	<u>67,462</u>
Change in fund balance	<u>\$ (63,162)</u>	<u>(4,886)</u>	<u>58,276</u>
Fund balance - beginning of year		<u>256,220</u>	
Fund balance - end of year	\$	<u>251,334</u>	

CITY OF RIVER HEIGHTS
WATER FUND
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	Favorable (Unfavorable)
Operating revenues:			
Services	\$ 212,444	201,457	(10,987)
Connection fees	23,652	13,475	(10,177)
Total operating revenues	236,096	214,932	(21,164)
Operating expenses:			
Salaries and benefits	13,968	21,734	(7,766)
Administrative fee	12,499	20,844	(8,345)
Material and supplies	83,333	-	83,333
Current expenses	47,237	27,697	19,540
Depreciation	35,000	43,474	(8,474)
Total operating expenses	192,037	113,749	78,288
Operating income	44,059	101,183	57,124
Non-operating income (expense):			
Impact fees	-	28,120	28,120
Interest income	3,576	4,384	808
Interest expense	(40,750)	(41,308)	(558)
Total non-operating income (expense)	(37,174)	(8,804)	28,370
Net income (loss)	\$ 6,885	92,379	85,494

CITY OF RIVER HEIGHTS
SEWER FUND
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
For The Year Ended June 30, 2005

	2005		Variance
	Budget	Actual	Favorable (Unfavorable)
Operating revenues:			
Services	\$ 80,688	83,416	2,728
Connection fees	13,800	3,650	(10,150)
Total operating revenues	94,488	87,066	(7,422)
Operating expenses:			
Salaries and benefits	15,013	15,957	(944)
Administrative fees	14,877	20,844	(5,967)
Material and Supplies	8,333	26	8,307
Current expenses	39,926	35,816	4,110
Depreciation	7,000	2,897	4,103
Total operating expenses	85,149	75,540	9,609
Operating income	9,339	11,526	2,187
Non-operating income (expense):			
Transfer to general fund	(47,000)	(47,000)	-
Impact fees	-	14,935	14,935
Interest income	3,988	4,885	897
Total non-operating income (expense)	(43,012)	(27,180)	15,832
Net loss	\$ (33,673)	(15,654)	18,019

RIVER HEIGHTS CITY
NET REVENUE BOND REQUIREMENT
WATER FUND
For The Year Ended June 30, 2005

Operating income	\$ 101,183
Adjustments to calculate net revenues:	
Interest	4,384
Depreciation	<u>43,474</u>
Net revenues	<u>149,041</u>
Debt service requirement for fiscal year 2005	
Principal	27,000
Interest	<u>39,500</u>
Total debt service requirement	<u>66,500</u>
Bond requirement of 125% of debt service	<u>83,125</u>
Excess of net revenues over bond requirement	\$ <u><u>65,916</u></u>

CITY OF RIVER HEIGHTS SUPPLEMENTAL WATER,
SEWER AND INSURANCE INFORMATION
June 30, 2005

Utility Users and Rates

The River Heights City water fund and sewer fund serve both residential and commercial users. As of June 30, 2005 there were the following users:

Water	537
Sewer	501

The monthly rate charged is as follows:

Water	\$ 26.20 per month
Sewer	\$ 13.00 per month

Insurance and Bond Coverage

The City has insurance and bonding policies with effective limits as follows:

<u>Description</u>	<u>Issuer</u>	<u>Number</u>	<u>Policy Limits</u>	<u>Expiration date</u>
Insurance:				
Comprehensive general liability (no deductible)	Utah Local Govt. Trust	TGL-241	\$ 5,000,000	7/9/2005
Errors and Omissions	Utah Local Govt. Trust	TGL-241	\$ 5,000,000	7/9/2005
Buildings and contents (\$1,000 deductible)	Utah Local Govt. Trust	PX809764	\$ 450,733	7/9/2005
Auto physical damage (\$250/\$500 deductible)	Utah Local Govt. Trust	12420	\$ 5,000,000	7/9/2005
Bonds:				
Treasurer	Hartford	58237455	\$ 150,000	2/15/2007

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CITY OF RIVER HEIGHTS
GOVERNMENTAL AUDIT REPORT

June 30, 2005



Certified Public Accountants

1011 West 400 North, Suite 100

P.O. Box 747

Logan, UT 84323-0747

Phone: (435) 752-1510 • (877) 752-1510

Fax: (435) 752-4878

OFFICERS:

Paul D. Simkins, CPA
Michael C. Kidman, CPA, MBA
Brent S. Sandberg, CPA
Brett C. Hugie, CPA
Mark E. Low, CPA
H. Paul Gibbons, CPA

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Mayor and City Council
City of River Heights
River Heights City, UT

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of River Heights, Utah (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions.

Finding No. 05-01

Condition: Internal controls to identify and report all fixed assets have not been adequately designed or placed in operation. In addition, the current fixed asset listing does not contain enough detail to properly record the disposal or deletion of fixed assets.

Criteria: Control procedures should properly identify and report all fixed assets. Procedures should also require enough detail to be recorded to allow the fixed asset disposals or deletions to be recorded properly.

Cause: Management had not implemented control procedures to identify and properly record all fixed assets.

Effect: Several fixed assets were excluded from the accounting records. Management and their contracted accountant were not able to identify, in their fixed asset listing, the assets which had been replaced or disposed.

Recommendation: We recommend that management and the City Council design and implement procedures to ensure that all new fixed assets are properly identified and reported in the financial records of the City. In addition, the fixed asset listing should be evaluated by management and their contracted accountant and recreated with sufficient detail to properly record deletions or disposals in future periods.

Finding No. 05-02

Condition: Internal controls to identify and report all restricted equity transactions and balances have not been adequately designed or placed in operation.

Criteria: Control procedures should properly identify and report all restricted equity transactions and balances.

Cause: Management has not implemented control procedures to identify and report restricted equity transactions and balances.

Effect: All restricted equity accounts are excluded from accounting records. Also, impact fees expended were more than impact fees which were collected. This was not shown in the accounting records.

Recommendation: We recommend that management and the City Council design and implement procedures to ensure that all restricted equity accounts are properly identified and reported in the financial records of the City. In addition, management should review the impact fee expenses with their contracted accountant to ensure that the restricted fund balance is properly recorded in the accounting records.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that finding 05-01 is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated February 8, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the City in a separate letter dated February 8, 2006.

This report is intended solely for the information and use of the management of the City, the City Council, and State agencies and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.
February 8, 2006

CITY OF RIVER HEIGHTS
STATE COMPLIANCE REPORT

June 30, 2005



Certified Public Accountants

1011 West 400 North, Suite 100

P.O. Box 747

Logan, UT 84323-0747

Phone: (435) 752-1510 • (877) 752-1510

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LEGAL COMPLIANCE REQUIREMENTS**

To the Mayor and City Council
City of River Heights
River Heights City, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of River Heights, Utah (the City), for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)
Liquor Law Enforcement Funds (State Tax Commission)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property Tax Limitations
- Liquor Law Enforcement
- C Road Funds
- Other General Compliance Issues
- Uniform Building Code Standards
- Impact Fees and Other Developmental Fees

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which we have reported to the management of the City in a separate letter dated February 8, 2006. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.



JONES SIMKINS, P.C.
February 8, 2006



Certified Public Accountants

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To the Mayor and City Council
City of River Heights
River Heights City, Utah

We have audited the financial statements of the City of River Heights (the City) for the year ended June 30, 2005, and have issued our report thereon dated February 8, 2006.

Communications Required Under Professional Standards

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards, Government Auditing Standards.

As stated in our engagement letter dated August 22, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and to report on the internal control in accordance with *Government Auditing Standards* and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies and Audit Adjustments

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. During the fiscal year, management adopted and implemented Government Accounting Standards Board (GASB) Statement No. 40 and GASB Statement No. 42. GASB No. 40 changed the disclosure requirements related to cash and investments. GASB No. 42 changed the accounting and disclosure requirements related to fixed assets, especially those that are unusable.

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We adjusted accounts receivable, capital assets, water fund expenses and restricted equity. In addition, several entries were necessary to convert from the fund basis to the entity-wide basis based on information that management provided.

Significant Difficulties Encountered During the Audit

During the course of the audit, we became aware of several deficiencies in the recording of fixed assets. As a result, several adjustments were required, including a material adjustment to Water Fund fixed assets. In addition, restricted equity accounts had not been recorded in the general ledger and additional documentation was needed to finalize our testwork. Significant time was incurred in determining who was responsible for resolving accounting issues and internal control concerns.

Internal Control

In planning and performing our audit of the financial statements of the City for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable condition.

Finding No. 05-01

Condition: Internal controls to identify and report all fixed assets have not been adequately designed or placed in operation. In addition, the current fixed asset listing does not contain enough detail to properly record the disposal or deletion of fixed assets.

Criteria: Control procedures should properly identify and report all fixed assets. Procedures should also require enough detail to be recorded to allow the fixed asset disposals or deletions to be recorded properly.

Cause: Management had not implemented control procedures to identify and properly record all fixed assets.

Effect: Several fixed assets were excluded from the accounting records. Management and their contracted accountant were not able to identify, in their fixed asset listing, the assets which had been replaced or disposed.

Recommendation: We recommend that management and the City Council design and implement procedures to ensure that all new fixed assets are properly identified and reported in the financial records of the City. In addition, the fixed asset listing should be evaluated by management and their contracted accountant and recreated with sufficient detail to properly record deletions or disposals in future periods.

Management Response: We recognize the weakness in internal controls to identify and report all fixed assets. We have appointed a financial officer to correct the weakness. He is charged to install a system or process that will identify and report all fixed assets in the future in enough detail to properly record the disposal or deletion of such assets.

Finding No. 05-02

Condition: Internal controls to identify and report all restricted equity transactions and balances have not been adequately designed or placed in operation.

Criteria: Control procedures should properly identify and report all restricted equity transactions and balances.

Cause: Management has not implemented control procedures to identify and report restricted equity transactions and balances.

Effect: All restricted equity accounts are excluded from accounting records. Also, impact fees expended were more than impact fees which were collected. This was not shown in the accounting records.

Recommendation: We recommend that management and the City Council design and implement procedures to ensure that all restricted equity accounts are properly identified and reported in the financial records of the City. In addition, management should review the impact fee expenses with their contracted accountant to ensure that the restricted fund balance is properly recorded in the accounting records.

Management Response: The weakness in internal controls is also recognized and the financial officer is charged to install a system that will ensure that all restricted equity accounts are properly identified and reported in the financial records of the city. In the future, we will review the impact fee expenses with the financial officer to ensure that the restricted fund balance is properly recorded in the accounting records.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we believe that finding 05-01 is a material weakness.

In addition, our audit disclosed the following conditions that although not considered by us to be material weaknesses, are either weaknesses in internal accounting control for which corrective action might be taken or immaterial instances of noncompliance.

1. A follow-up on the recommendations in this letter should be made by the Council and reflected in the Council minutes.

Management Response:

The City Council will follow up on the auditor's recommendations and the City Council's actions will be reflected in the Council minutes.

2. The City is required to maintain its operating income in the Water Fund above a required amount. Also, certain amounts are required to be kept in reserve. The City should review its bond covenants and verify that its current deficit cash position and deficit unrestricted equity are not in violation of the bond covenants. The City should also monitor the Water Fund operations during the year and verify that operating income will be sufficient to meet the bond requirements.

Management Response:

We have reviewed the Water Fund bond covenants and do not find any violation relating to its current deficit cash position and deficit unrestricted equity.

3. The Water Fund has negative unrestricted net assets at June 30, 2005. This deficit increased during the fiscal year. We recommend that the City evaluate if current fees structure will generate sufficient net income to eliminate the negative unrestricted net assets.

Management Response:

The Water Fund had an unusual capital expense in excess of \$100,000 caused by a well casing collapse. If this had not occurred, the negative unrestricted net assets balance would have been reduced. The current fee structure is sufficient under normal circumstances to generate sufficient net income to eliminate the negative unrestricted net assets.

4. The accounting and record keeping requirements for impact fees are significant and somewhat burdensome. The City's records not only need to meet state financial reporting requirements but satisfy the burden of proof if legally challenged. We noted that the City claimed expenses from prior years to document the current balance of impact fees. We recommend that develop procedures to determine and document which expenses qualify to be paid by impact fees.

Management Response:

In the future, the city councilmember responsible for payment authorizations will indicate whether the expense qualifies to be paid from impact fees.

5. We noted that the City's fund balance in the General Fund exceeded the legal limit allowed by State law. We recommend that the City take appropriate action to ensure that the unrestricted fund balance comply with the legal limits.

Management Response:

The city's fund balance in the General Fund will be brought into compliance with State law.

6. State law requires that hook up and other development fees charged to make connections to utility services must not exceed the approximate average costs of the services provided to make the connection. We recommend the City document the calculation to ensure compliance with the requirement.

Management Response:

The city will calculate the approximate average cost of hook up and other development fees to make connections to utility services.

7. State law requires that officers and employees of the City shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. The general government department, public safety department, sanitation department, parks and recreation department and the Capital Projects Fund expended funds in excess of their appropriation. We recommend the City monitor its budgets and adopt changes as necessary.

Management Response

In the future, members of the City Council will receive monthly reports of expenditures compared with their budgets so they can monitor and control their expenses.

8. The Uniform Fiscal Procedures Act for Cities requires cities to adopt an ordinance or resolution governing purchasing procedures. It also requires purchases to be made according to the purchasing procedures established by the City. We recommend that the City adopt a purchasing procedures policy and follow that policy when applicable.

Management Response:

A purchasing policy will be adopted.

We appreciate the cooperation and assistance from City personnel during our audit. Their help was beneficial in the completion of the audit. If questions arise concerning the above recommendations, please contact us and we will be happy to discuss them with you.

This report is intended solely for the use of the Mayor and City Council and should not be used for any other purposes.



JONES SIMKINS, P.C.
February 8, 2006

River Heights City

Mayor: Todd Weston
Recorder: Sheila Lind
Treasurer: Annette Smith
Public Works: Kent Parker

June 6, 2006

City Council
Gladys Ann Atwood
Bill Baker
Robert Gines
O. Brent Greenhalgh
Mary Barrus

Mr. MacRay A. Curtis, CPA
State of Utah
PO Box 142310
Salt Lake City, UT 84114-2310

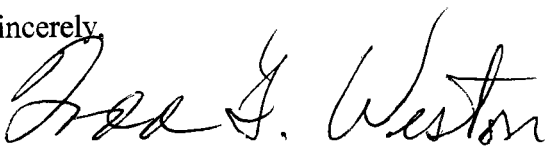
Dear Mr. Curtis,

In response to your letter dated 25 May 2006, please be advised I took office as of 1 January 2006 and the problems you have noted were from a prior administration. We have been diligent in attempting to correct these problems. As of 1 May 2006, we have hired a budget and financial officer, Dr. James Brackner, and charged him with the responsibility to bring the City of River Heights into compliance with all Utah State financial laws.

The budgetary non-compliance problem will be corrected by having our city council approve a revised budget on June 13, 2006 for the year ended June 30, 2006. The fund balance in the General Fund will be brought into compliance with section 10-6-116 of the Utah Code by transferring funds from the General Fund to the Capital Projects Fund before closing the books for the year ended June 30, 2006.

If you are aware or become aware of any other problems with the City of River Heights financial reporting, please contact Dr. James Brackner at 435-752-2646.

Sincerely,



Todd G. Weston
Mayor